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GEORGIA'S ECONOMY: TRENDS AND OUTLOOK

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FRC Report No. 145
March 2007



ANDREW YOUNG SCHOOL
OF POLICY STUDIES

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Introduction

The purpose of this analysis is to provide a summary regarding the state of Georgia's economy and the key trends that have shaped Georgia's current economy and will continue to shape it in the future. The analysis will explore trends in employment, income, demographics and other key indicators of the vitality of Georgia's economy.

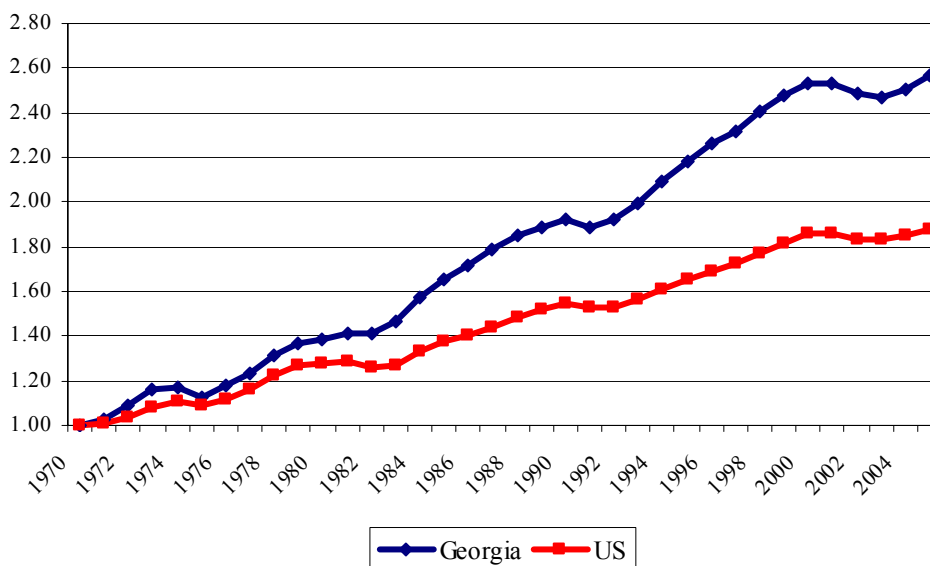
Employment Trends

Non-Farm Employment Growth and Concentration

Georgia has enjoyed high employment growth for an extended period of time.

- Figure 1 compares the growth in Georgia total employment to US total employment by indexing annual levels to 1970. Over the period 1970-2005 the average annual growth rate in non-farm employment in Georgia was 2.73 percent, compared to the U.S. average of 1.82 over the same period.
- Total Georgia non-farm employment as a share of total U.S. non-farm employment grew from 2.1 percent in the 1970s to 3.0 percent in the late 1990s and through 2005.

FIGURE 1. GEORGIA AND US TOTAL EMPLOYMENT INDEXED ON 1970 LEVELS

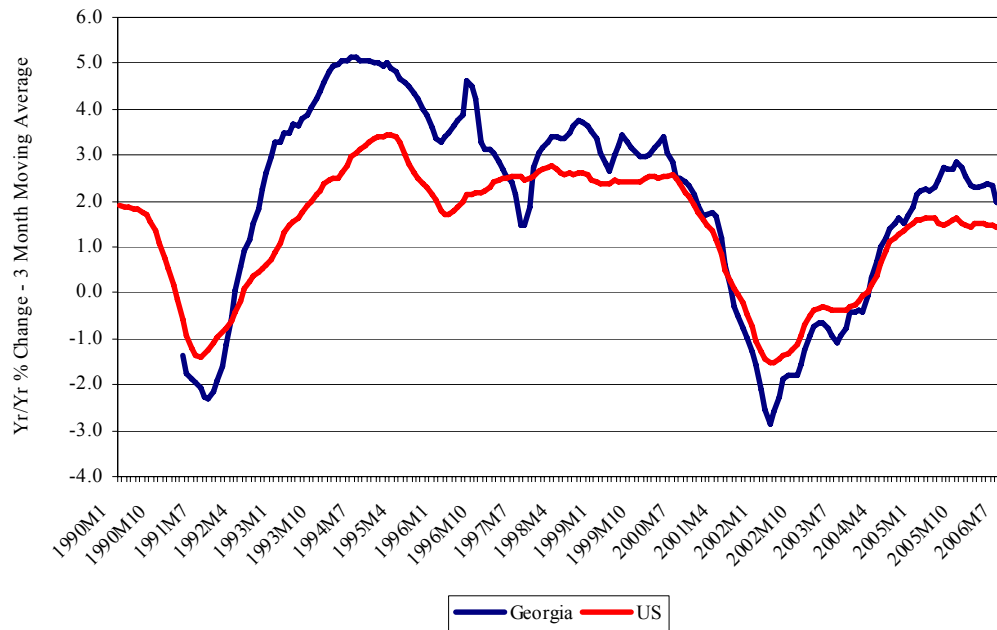


Source: US Bureau of Labor Statistics – Current Employment Statistics.

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- As shown on Figure 2 below, Georgia went through an extended period of job loss during and after the 2000 recession. The decrease in employment was more severe and lasted longer in Georgia than in the US. In contrast, Georgia's recovery from the 1991 recession led that of the US and was much stronger than the US recovery.

FIGURE 2. US VS. GEORGIA NON –FARM EMPLOYMENT GROWTH

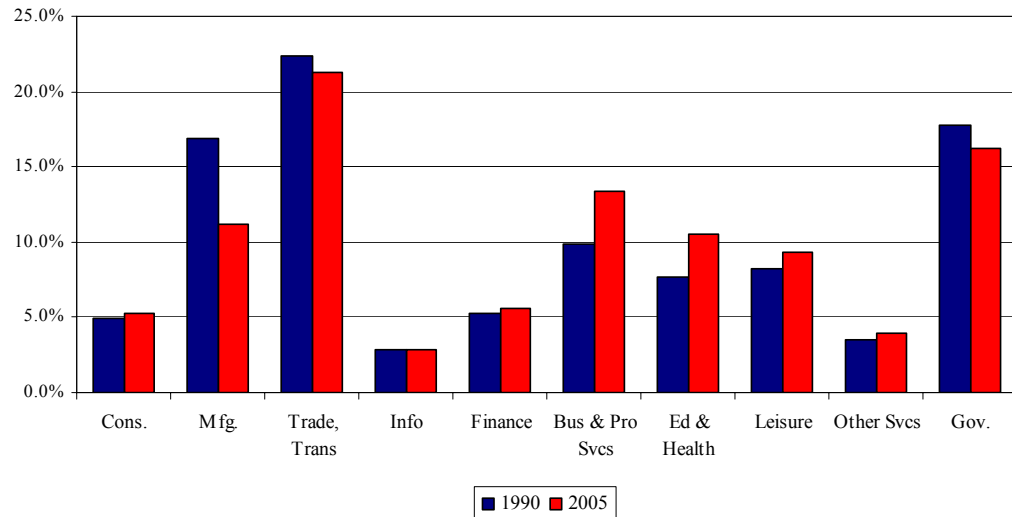


Source: US Bureau of Labor Statistics - Current Employment Statistics.

- As with the US economy, Georgia's economy has become more services oriented. Figure 3 illustrates the shift in employment among major sectors of Georgia's economy from 1990 to 2005. Manufacturing, government, and trade, transportation and utilities have all declined in their share of total Georgia employment. In contrast, professional and business services, education and health and leisure and hospitality have all grown faster than overall employment.

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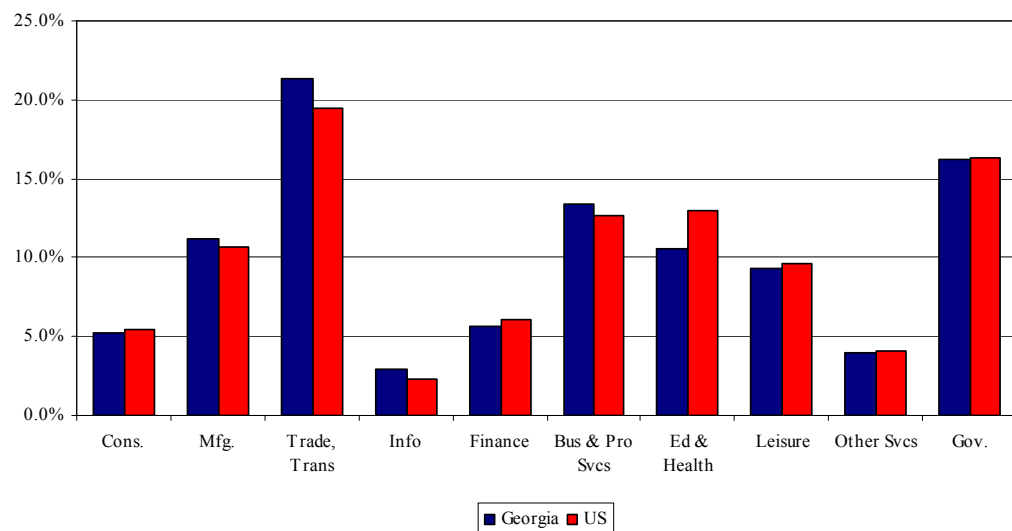
FIGURE 3. SHARE BY MAJOR SECTOR OF TOTAL NON-FARM EMPLOYMENT IN GEORGIA



Source: US Bureau of Labor Statistics – Current Employment Statistics.

- Figure 4 compares the US and Georgia's share of employment in major sectors for 2005. The figure indicates that Georgia's employment base is relatively more concentrated in manufacturing, trade, transportation and utilities, information and professional and business services than the US. Georgia's employment base is less concentrated in education and health and leisure and hospitality. Note that both of these sectors have been high growth sectors in recent years.

FIGURE 4. 2005 SHARE BY MAJOR SECTOR OF TOTAL NON-FARM EMPLOYMENT – US VS. GEORGIA

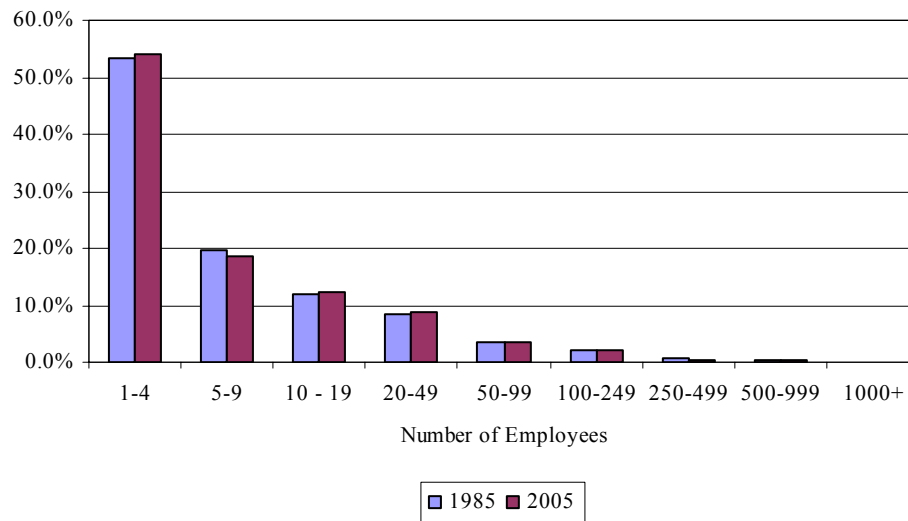


Source: US Bureau of Labor Statistics - Current Employment Statistics.

Employment by Establishments

- An establishment is the physical location of a certain economic activity—for example, a factory, mine, store, or office. A single establishment generally produces a single good or provides a single service. An enterprise (a private firm, government, or nonprofit organization) can consist of a single establishment or multiple establishments.
- Figure 5 compares the distribution of establishments by employment size in Georgia over the period 1985–2005. As shown, this distribution has remained relatively stable over the period. The percentage of total establishments with 500+ employees has decreased slightly while the percentage of establishments with fewer than 50 employees has increased slightly. While difficult to see on the chart, the percent of establishments with more than 1000 employees has decreased significantly over this time. Overall, approximately 75 percent of Georgia establishments have 10 or fewer employees.

FIGURE 5. DISTRIBUTION OF ESTABLISHMENTS IN GEORGIA BY LEVEL OF EMPLOYMENT



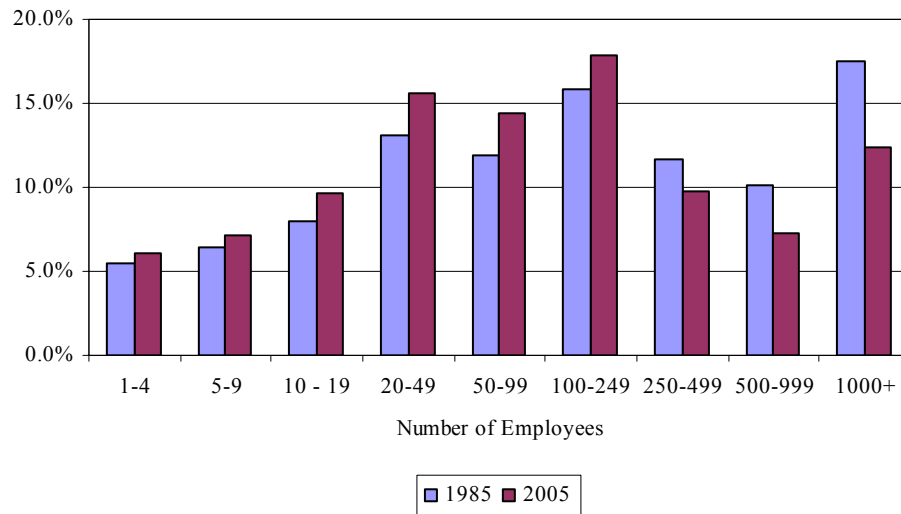
Source: US Bureau of Labor Statistics – Quarterly Census of Wages and Employment.

- In contrast, Figure 6 shows that the distribution of employment by establishment size has changed significantly. The percentage of employment accounted for by large (250+ employees) establishments has decreased significantly. The percentage of employment accounted for by the medium size (20–250 employees) establishments has increased significantly, while the percent of employment with small establishments (1–20 employees) has also grown. The percentage of employment accounted for by the largest category

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of establishment (1000+ employees) has fallen dramatically, from 17.5 percent of total employment to 12.3 percent.

FIGURE 6. DISTRIBUTION OF EMPLOYMENT BY SIZE OF ESTABLISHMENT IN GEORGIA



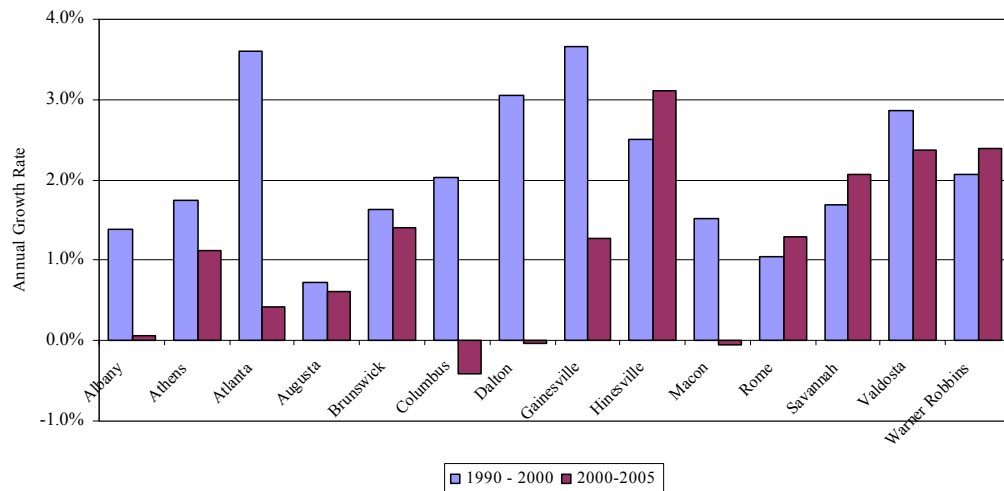
Source: US Bureau of Labor Statistics – Quarterly Census of Wages and Employment.

Regional Employment Trends

- The chart below compares annual average employment growth across Georgia's metro areas for two time periods; 1990 to 2000 and 2000 to 2005.
- During the period 1990–2000, all of Georgia's metro areas experienced employment growth. Atlanta, Dalton, Gainesville and Valdosta experienced especially strong employment growth over the decade.
- Over the period 2000–2005, employment growth has been much more mixed on a regional basis. Atlanta, which was one of the growth leaders during the 1990s, has had relatively weak employment growth over the more recent five-year period. This reflects the large decrease in employment during and after the 2000 recession. Other areas, such as Macon, Dalton, Columbus and Albany have experienced minimal to negative employment growth over the 2000–2005 time period.

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FIGURE 7. ANNUAL EMPLOYMENT GROWTH RATES FOR MAJOR METRO AREAS

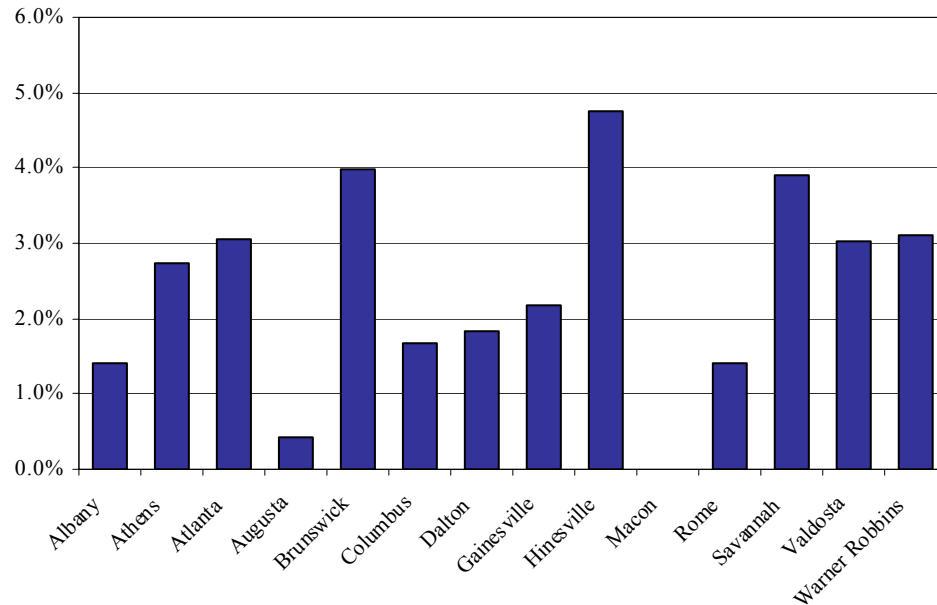


Source: US Bureau of Labor Statistics - Current Employment Statistics.

- For the most recent year, 2005, employment growth has looked much more like the 1990s. As shown below the annual job growth experienced on a regional basis was strong and reasonably well diversified. Atlanta returned as a key job growth site during this period and other areas also experienced very strong job growth including Hinesville-Ft. Stewart, Brunswick, and Savannah. Macon and Augusta continue to experience weak growth in total non-farm employment.

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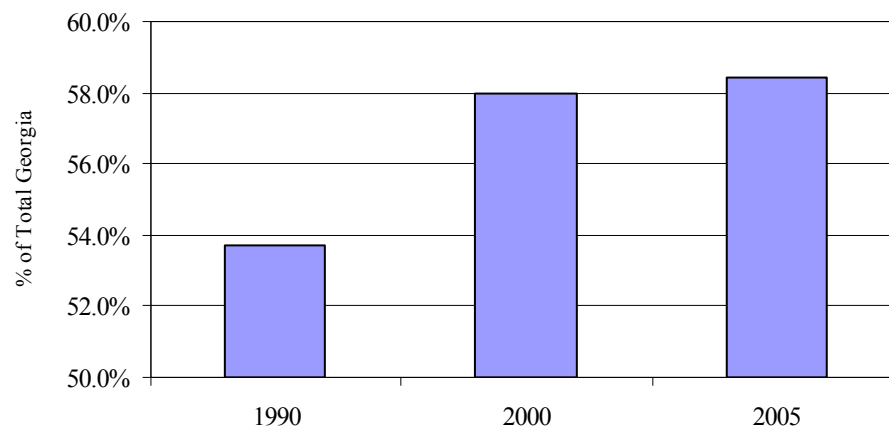
FIGURE 8. ANNUAL EMPLOYMENT GROWTH BY METRO AREA – 2005 OVER 2004



Source: US Bureau of Labor Statistics - Current Employment Statistics.

- The 28 county Atlanta standard metropolitan statistical area continues to expand its overall portion of total Georgia employment. This proportion has increased from less than 54 percent in 1990 to over 58 percent in 2005.

FIGURE 9. METRO ATLANTA EMPLOYMENT AS PERCENT OF TOTAL GEORGIA

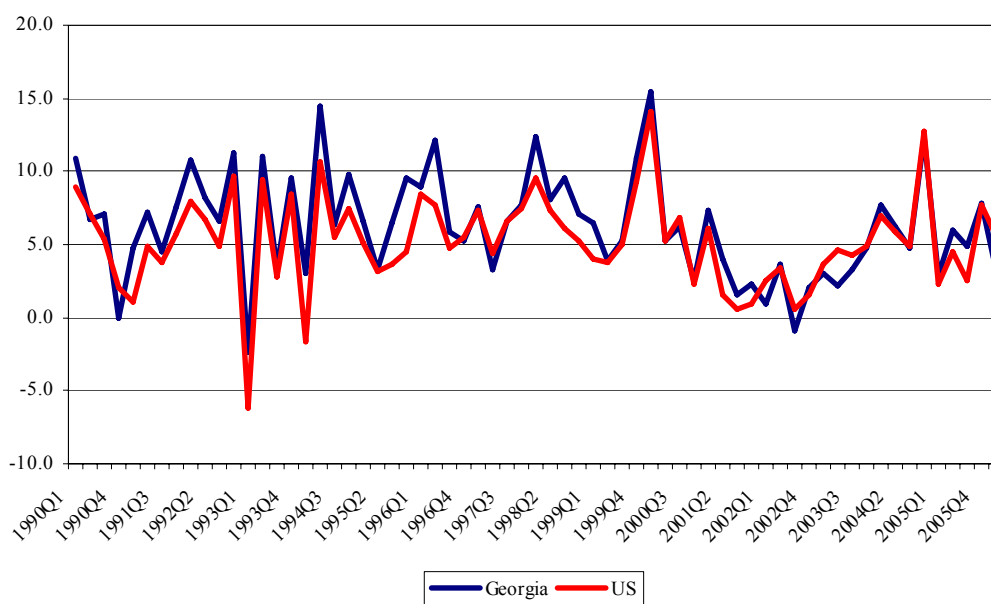


Source: US Bureau of Labor Statistics - Current Employment Statistics.

Personal Income

- Personal income is a key measure of a state's overall economic growth and well-being. Personal income is income that is received by, or on behalf of, persons who live in the state. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation adjustment (IVA) and private capital consumption adjustment (CCAdj), rental income of persons with CCAdj, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance. When expressed on a per capita basis, it provides a measure of the relative improvement in economic well-being of the population.
- As shown in Figure 10, Georgia's total personal income has been growing faster than the US, except during the 200 recession. This reflects strong employment growth and the growth in total wages and salaries that have accompanied it. It also reflects substantial growth in Georgia's population.

FIGURE 10. PERSONAL INCOME GROWTH – US VS. GEORGIA – ANNUALIZED PERCENT CHANGE



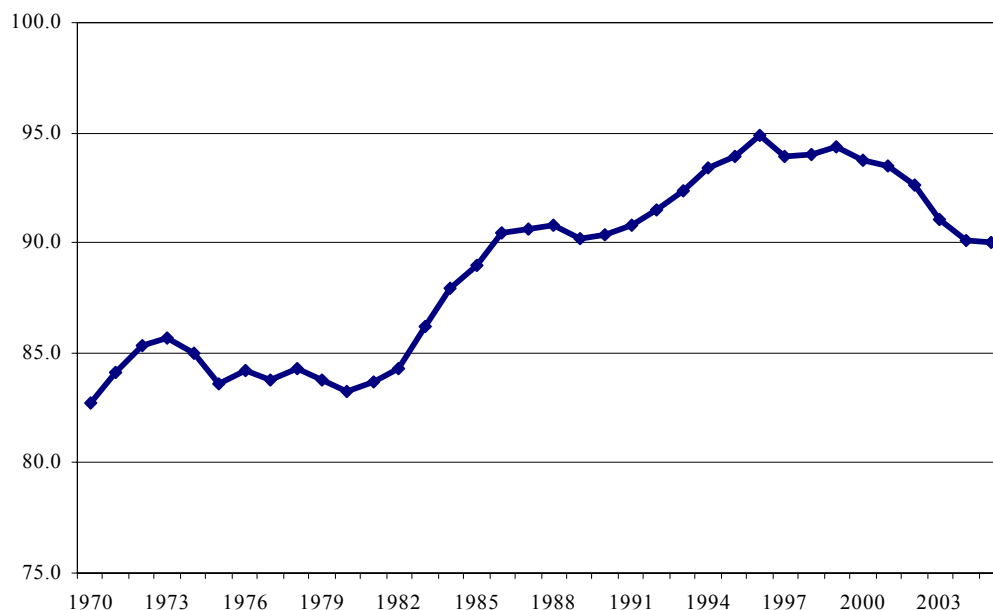
Source: US Bureau of Economic Analysis.

- On a per capita basis however, recent trends have not been as favorable. Figure 11 shows Georgia's per capita income relative to that of the US. The long-term trend beginning in the 1980s was for Georgia's per capita income to increase relative to that of the US. The narrowing of the gap between Georgia's per capita income and US per capita income was especially striking in the first half of the 1990s. However, this gap has grown wider in recent years. This reflects the large decline in Georgia's employment in the 2000

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recession and the long lag before employment began to grow. It also reflects the continued growth in the number of immigrants, both domestic and international, into Georgia which has led to quick population growth and growth in low-income households.

FIGURE 11. GEORGIA PER CAPITA INCOME AS PERCENT OF US PER CAPITA INCOME



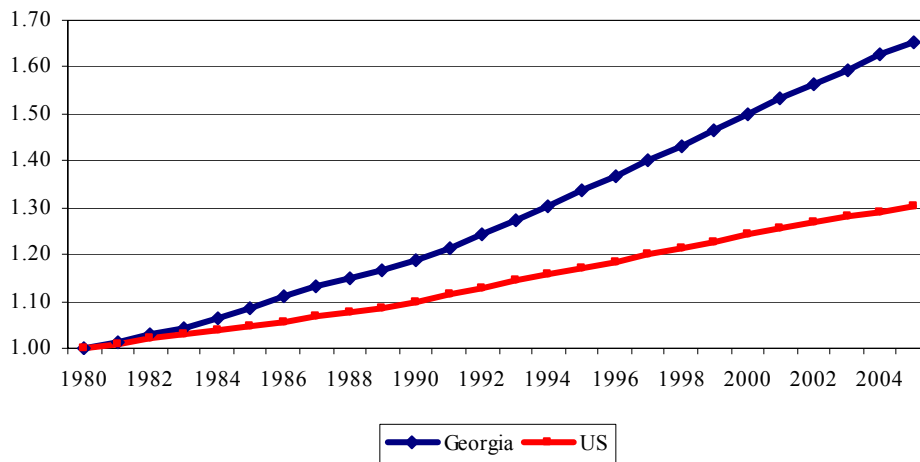
Source: US Bureau of Economic Analysis.

Demographic Trends

- Georgia is a high population growth state. Figure 12 indexes annual population estimates for Georgia and the US to population in 1980. The figure indicates that Georgia's population grew by about 65 percent from 1980 to 2005 while total US population grew by about 30 percent.

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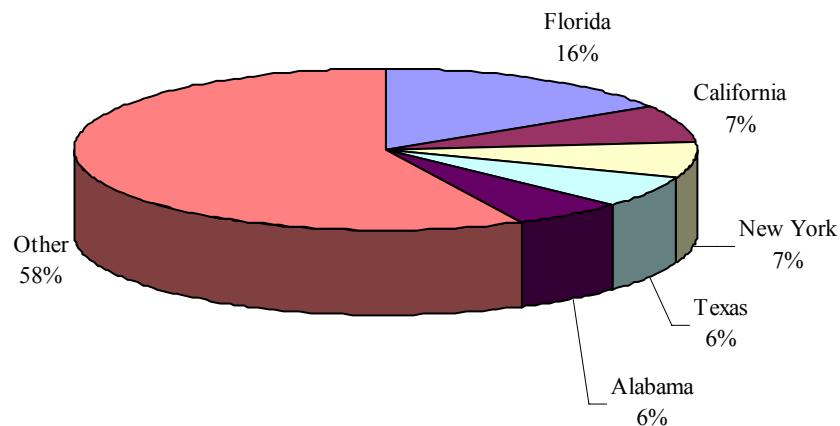
FIGURE 12. US AND GEORGIA POPULATION INDEXED TO 1980



Source: US Census Bureau – Population Estimates.

- Population growth has been bolstered by heavy net migration into Georgia. Net migration consists of people moving into Georgia from other states or countries and people moving out of Georgia to other states or countries.
- Figure 13 summarizes the proportion of domestic immigrants to Georgia. Florida provided the most migrants into Georgia, accounting for 16 percent of domestic migrants into the state. This is more than twice the rate of the second ranked state, California.

FIGURE 13. SOURCES OF DOMESTIC MIGRATION INTO GEORGIA (1995 – 2000)

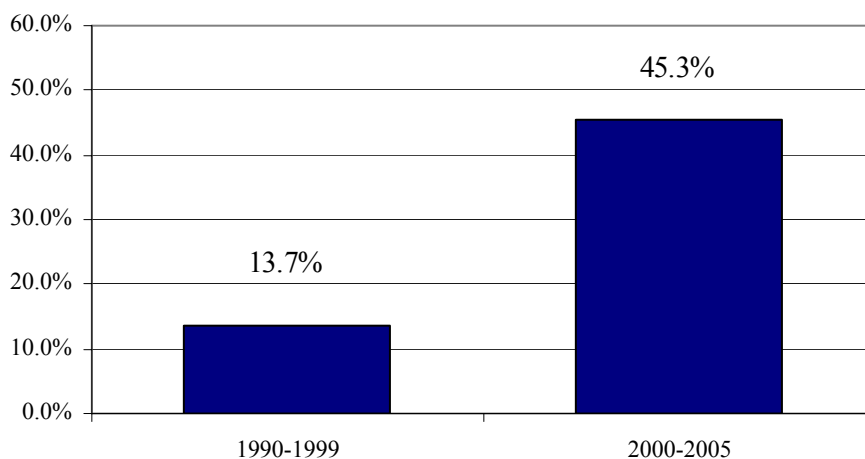


Source: US Census Bureau – Population Estimates.

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- The character of Georgia's migration patterns has changed from the 1990s. Figure 14 below shows that the proportion of migrants into the state has become much more international in the 2000s. The proportion of international immigration has more than tripled from the 1990s.

FIGURE 14. INTERNATIONAL NET IN-MIGRATION INTO GEORGIA AS A PERCENT OF TOTAL IN-MIGRATION



Source: US Census Bureau – Population Estimates.

State Rankings

- There are numerous surveys and rankings which provide some insight into Georgia's economic conditions and attractiveness relative to other states. A subset are presented in the table below to provide some food for thought regarding Georgia's relative well-being.

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Area	Georgia Value	Georgia Rank	US Value
<i>Income & Poverty</i>			
Median Household Income	\$45,604	24 th	\$46,242
% of Children in Poverty	20.2%	37 th	18.5%
% of Total Population in Poverty	14.4%	38 th	13.3%
<i>Attractiveness to Business</i>			
Cost of Doing Business		20 th	
Site Magazine - Business Climate	NA	3 rd	NA
Fiscal Competitiveness		1 st	
<i>Educational Attainment – 25 or Older</i>			
% High School Graduates	82.8%	38 th	84.2%
% Bachelor Degree	27.1%	23 rd	27.2%
% Advanced Degree	9.5%	22 nd	10.0%
<i>Other</i>			
Mean Commute Time - Minutes	27.2	45 th	25.1

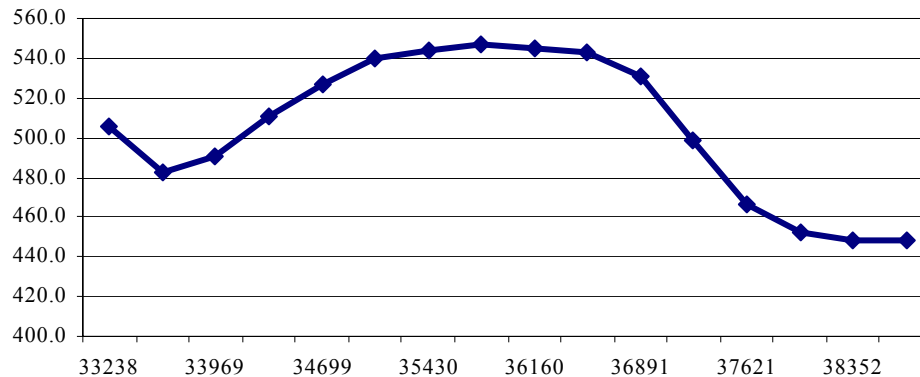
Major Trends Affecting Georgia's Outlook

The single biggest factor affecting growth in Georgia is the health of the US economy. However, there are longer-term trends that will affect how well Georgia's economy performs relative to the US average.

Long-term Decline in Manufacturing

- Manufacturing employment has been declining in Georgia and in the US. Figure 15 shows total manufacturing employment in Georgia from 1990 through 2005. Manufacturing employment declined due to the recession in the early 1990s, then recovered and then held relatively stable during the latter half of the 1990s. Thereafter, manufacturing employment has declined.

FIGURE 15. MANUFACTURING EMPLOYMENT (JOBS IN 000S)



Source: US Bureau of Labor Statistics – Current Employment Statistics.

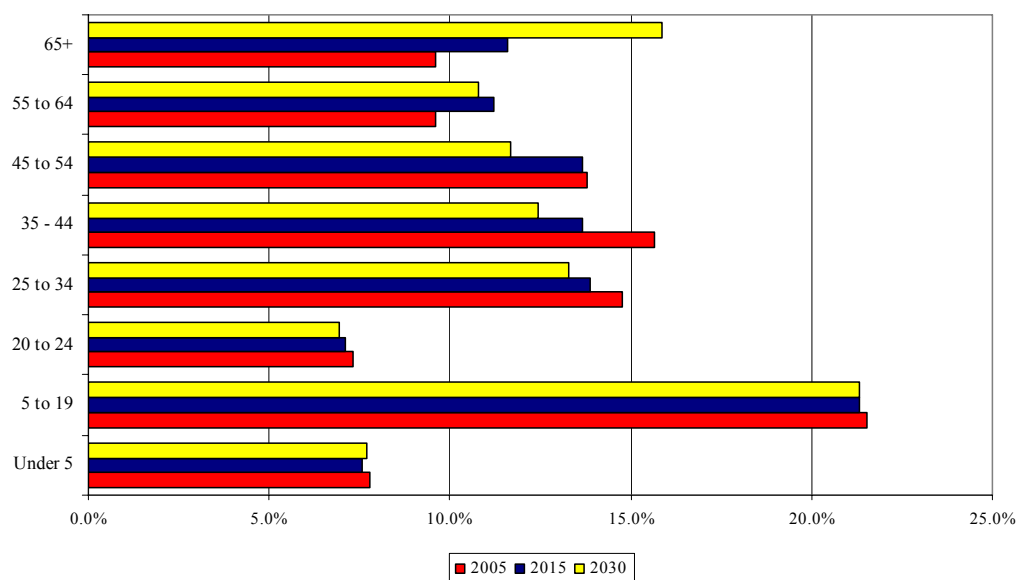
- Within the overall manufacturing sector, textile mills employment has been especially hard hit. Overall manufacturing employment fell by just over 11 percent from 1990 to 2005. Employment at textile mills and textile product mills has fallen by almost 34 percent over the same period.
- Georgia's manufacturing employment will be reduced in the near future due to the shutdowns of the GM and Ford manufacturing plants in the Atlanta metro area. Transportation equipment manufacturing employment represents about 46,000 jobs in Georgia. GM and Ford plants represent about 5,000 of these jobs. In total, motor vehicle manufacturing activities including parts manufacturing make-up about 21,500 jobs.

Georgia's Population Will Age Rapidly

The leading edge of the baby boomer generation has hit 60. The impact of this generation on the age distribution of the population will be dramatic. Much of the policy discussion regarding the aging population has focused on Social Security and Medicare entitlements. However, this population shift will also impact state fiscal conditions. The aged tend to have a higher participation in Medicaid, require an above average cost of Medicaid spending, and receive tax preferences that tend to reduce their tax obligations compared to younger taxpayers.

- Figure 16 below compares the percentage of Georgia's total population by age group for 2005, 2015 and 2030.
- The aged (65+) are projected to increase as a proportion of total population from 9.6 percent to 15.0 percent. In terms of raw numbers, the aged will increase by 51 percent from 2000 to 2015 and by 143 percent by 2030.

FIGURE 16. DISTRIBUTION OF POPULATION BY AGE GROUP IN GEORGIA



Source: US Census Bureau – Population Estimates and Forecasts.

- Note also that the age groups that historically have the highest average household incomes (35–64) are projected to shrink in terms of their proportion of total population.

High Technology Sector Overall Will Continue to Grow Over the Long-Term and Increase Productivity in the Economy

The high tech sector covers many of areas of the economy. Many of these areas have experienced wide volatility. For example, the internet boom of the 1990s led to rapid expansion in telecoms and related services and in software application development. However, the resulting downturn led to serious cutbacks in these areas. Overall however, high tech is a critical growth driver for the economy as businesses increase productivity via technology and consumers purchase high tech products for day-to-day use.

- Growth in high tech in Georgia has been strong. The table below presents data on employment, establishments and wages in high tech industries. High tech makes up an increasing share of Georgia's economic base. Employment has grown from about 8 percent of total employment in the state in 1985 to about 10.6 percent in 2005. The share of total wages has grown more quickly as these sectors tend to be high paying.

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Year	High Tech	-----Establishments-----		-----Employees-----		-----Wage-----	
		Number	% Share of State's Total Establishments	Number	% Share of State's Total Employees	% Share of State's Total Wages	Wage Per Week (2000\$)
1985	Total	2,634	1.82	212,774	7.95	10.00	\$594
	High-Intensive	1,391	0.96	58,200	2.17	3.23	\$702
	Medium-Intensive	1,243	0.86	154,575	5.77	6.76	\$553
1995	Total	13,670	6.54	407,402	11.50	16.48	\$748
	High-Intensive	7,688	3.68	179,067	5.05	8.67	\$895
	Medium-Intensive	5,982	2.86	228,335	6.44	7.80	\$632
2005	Total	19,868	7.15	430,453	10.58	15.46	\$947
	High-Intensive	11,713	4.22	183,181	4.50	8.09	\$1,164
	Medium-Intensive	8,155	2.94	247,272	6.08	7.37	\$786

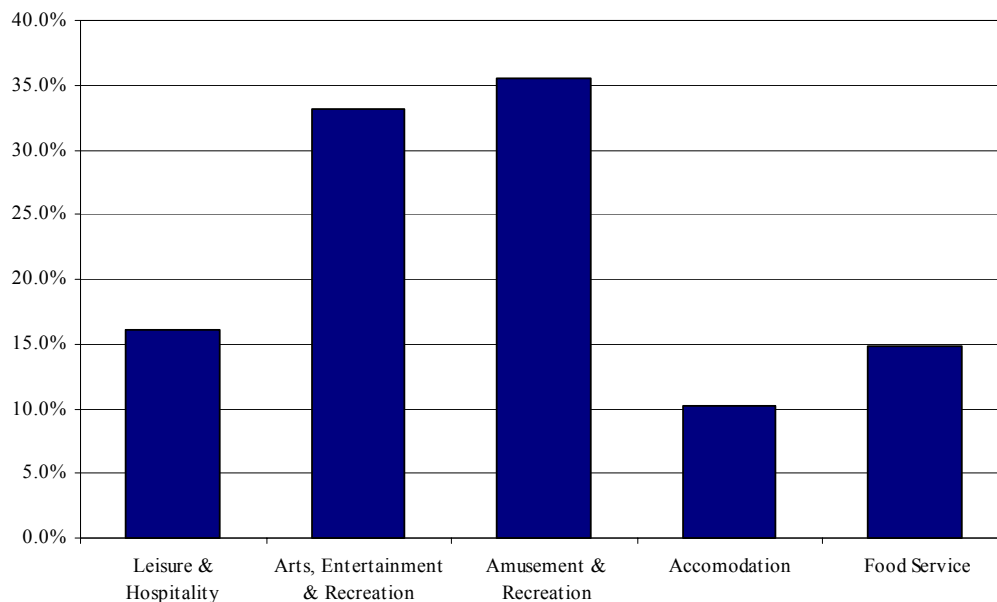
- While high tech jobs are, on average, high paying, they also require an educated work force. Approximately 92 percent of high tech workers have education beyond a high school degree.

Georgia's Has Improved Its Position as a Tourism/Convention Site

Georgia has grown as a tourist destination. Several notable events have contributed to this growth. First, the Georgia Aquarium opened which attracted over three million visitors in its first year. Second, convention business at the Georgia World Congress Center improved partly due to the transfer of meetings from New Orleans to Atlanta, but also due to the overall increase in business travel as the economy has improved. Finally, increased marketing efforts have attracted travelers to the state. The Georgia Department of Economic Development estimated that travelers spent \$25 billion while visiting Georgia in 2005.

- Figure 17 below illustrates the percent growth in employment in the leisure and hospitality sector and in key sub sectors. The percent growth is measured over the period 2003 Q1 through 2006 Q2.

FIGURE 17. TOURISM RELATED EMPLOYMENT GROWTH – % CHANGE 2006 Q2 OVER 2003 Q1



Source: US Labor Statistics – Current Employment Statistics.

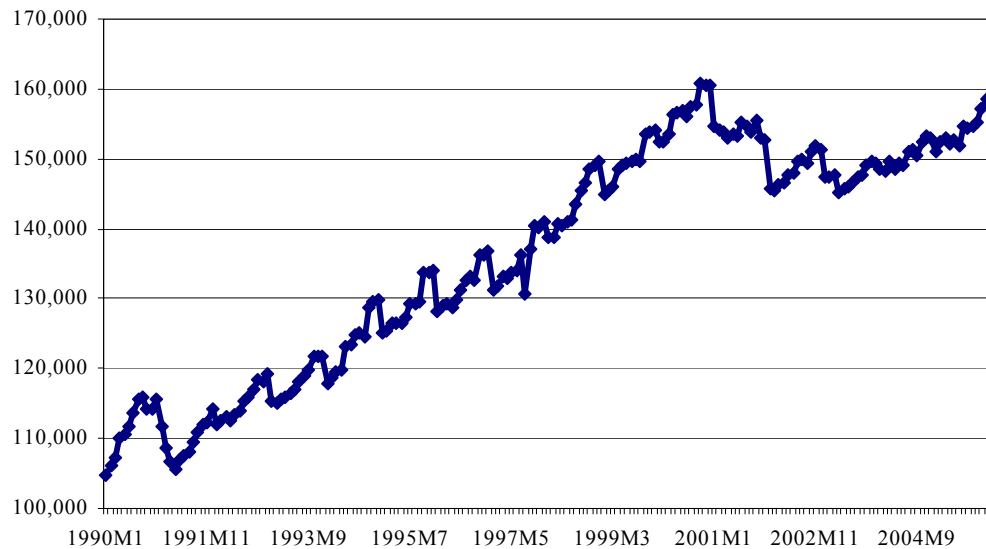
Globalization Has Increased the Importance of Trade and Georgia Has Benefited from Increased Shipments of Goods

While globalization has resulted in the loss of much manufacturing activity and jobs to overseas locations, Georgia has benefited by expanding its importance as a shipping and logistics center.

- Figure 18 below shows that employment in transportation and warehousing has grown quickly in Georgia despite the challenges in the passenger air industry.

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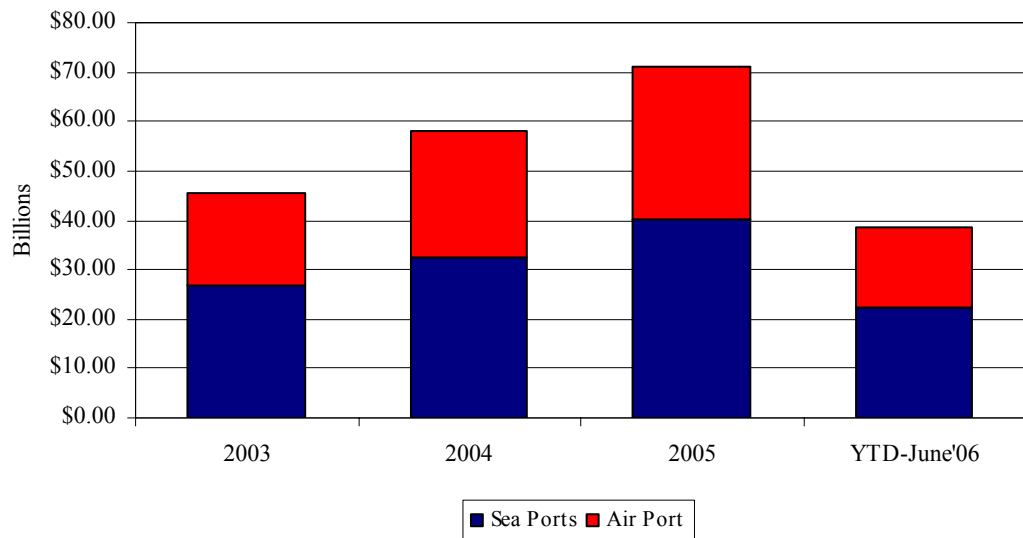
FIGURE 18. TRANSPORTATION AND WAREHOUSING EMPLOYMENT IN GEORGIA



Source: US Labor Statistics – Quarterly Census of Wages and Employment.

- Georgia's importance as a shipping hub has been bolstered by expansion of port facilities in the state as well as by growth in air cargo at the Atlanta airport. Figure 19 below illustrates the increase in import and export shipments through Georgia's facilities

FIGURE 19. PORT AND AIR CARGO SHIPMENTS (\$ BILLIONS)

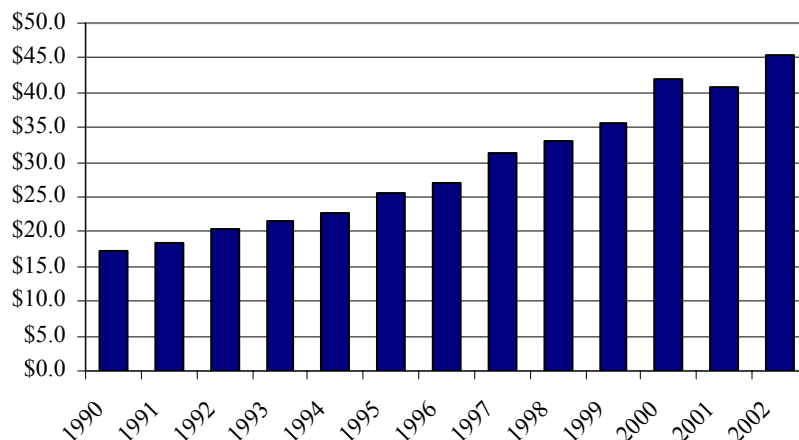


Source: US Census Bureau – Foreign Trade Statistics.

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- Figure 20 provides a longer-term perspective on total import / export activity in Georgia.

FIGURE 20. TOTAL GEORGIA IMPORT / EXPORT ACTIVITY (\$ BILLIONS)



Source: US Census Bureau – Foreign Trade Statistics.

Housing Sector is Slowing

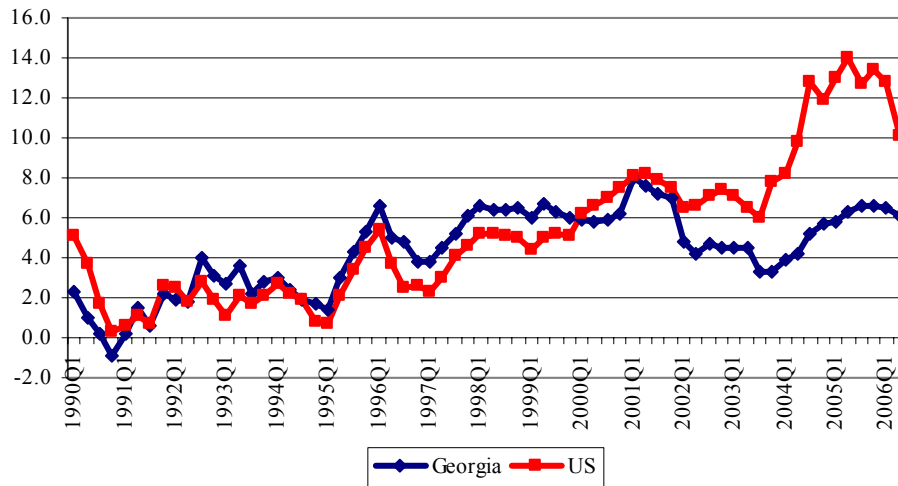
Housing has been a critical growth engine for the US during the recovery from the 2000 recession, but the housing market is clearly slowing down. Georgia's housing market has been strong but not subject to the speculative fervor that occurred in other regional markets. Thus, Georgia is less likely than some of these other regions to face a collapse of housing activity or prices.

- The economic recovery from the 2000 recession has been fueled in large part by consumer spending and housing activity.
- Housing has had two important impacts. First, construction of new homes has spurred labor markets and increased demand for a wide variety of goods and services to support new homes. Second, the rapid run-up in home prices has allowed home owners to convert their equity into liquid assets via home equity loans and cash-out re-financings. This, in turn, has supported consumer spending as homeowners spent this converted wealth.
- While housing has played a significant part in Georgia's recovery, the housing market has not been as exuberant as in other regional markets. Figure 21 below compares year over year percent change in the median selling price of existing single family homes. As shown, home prices closely tracked each other through the 1990s and early 2000s. However, Georgia

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prices fell coming out of the 2000 recession and have grown moderately since. In contrast, US home prices exploded beginning in mid-2003. Recent trends show a steep deceleration in US home price appreciation while Georgia home prices show only a moderate decline.

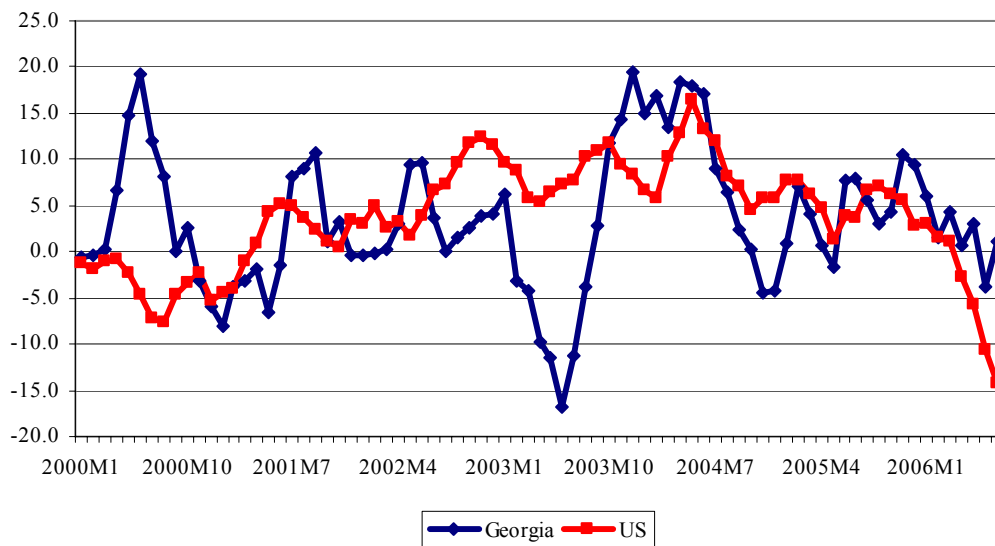
FIGURE 21. MEDIAN SELLING PRICE OF EXISTING SINGLE FAMILY HOMES (YR OVER YR % CHANGE)



Source: Office of Federal Housing Enterprise Oversight.

- The housing slowdown is also apparent in housing starts. Figure 22 compares the year over year percent change in housing starts for Georgia and the US.

FIGURE 22. HOUSING STARTS (YR/YR % CHANGE – 3 MONTH MOVING AVERAGE)



Source: US Census Bureau and Economy.com.

Outlook for Georgia's Economy

The primary factor influencing Georgia's economy will be the state of the overall US economy. As the growth of the US economy changes over time, Georgia's growth will tend to follow. US growth has moderated in recent months with slowdowns in key sectors such as housing and real consumer spending. However, the slowdown is expected to result in continued moderate economic growth.

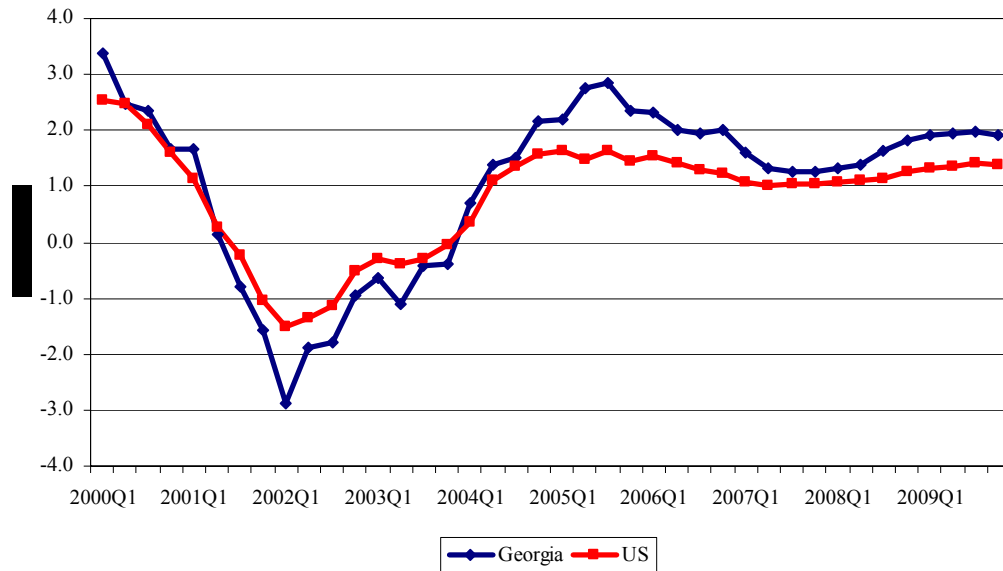
For Georgia, the forecast is that the state will continue to outperform the US on key economic indicators.

Employment growth is reported below based on the percent growth in non-farm employment compared to the same quarter from the prior year. Personal income growth is reported based on the annualized growth rate from the prior quarter. The annualized growth rate measures the growth assuming the percentage growth for that quarter continued for four quarters.

- Figure 23 summarizes the forecast for non-farm employment growth in the US vs. Georgia. As shown, Georgia's employment growth is expected to moderate as the overall US economy cools; but employment growth is expected to outperform US employment growth. Note that performance gap between Georgia and the US is projected to narrow as the state digests manufacturing plant shutdowns and potential job losses due to merger activity. Overall, employment growth is expected to range between 1 percent and 2 percent on a year over year basis.

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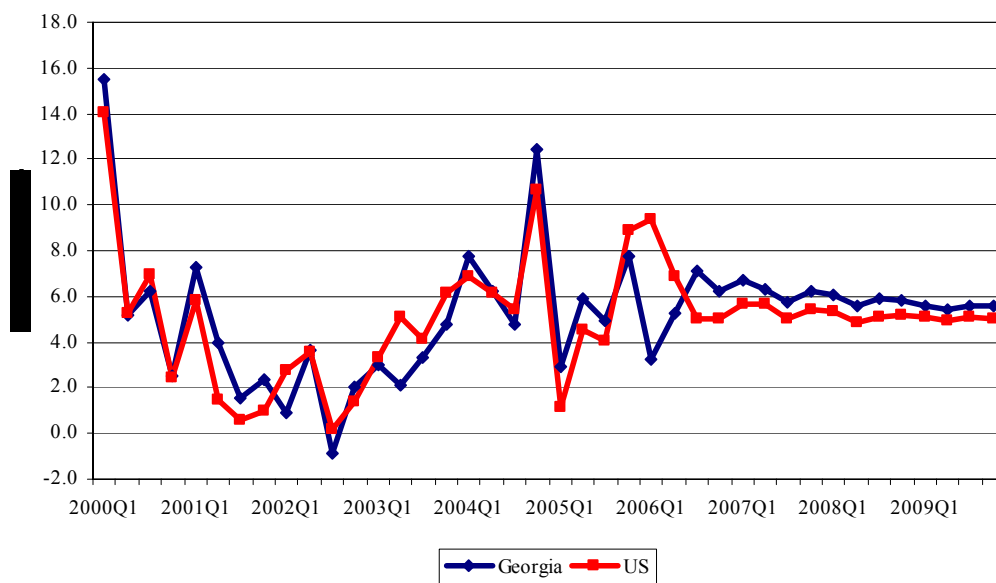
FIGURE 23. NON-FARM EMPLOYMENT GROWTH – GEORGIA VS. US (YR/YR % CHANGE)



Source: Economy.com and State of Georgia Economics Office.

- Figure 24 summarizes the forecast for aggregate personal income growth in Georgia compared to the US. Again, the forecast holds that personal income growth in Georgia will outpace that of the US. Overall, personal income growth is expected to run around 6 percent on an annualized basis.

FIGURE 24. PERSONAL INCOME GROWTH – GEORGIA VS. US (ANNUALIZED % CHANGE)



Source: Economy.com and State of Georgia Economics Office.

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- There are several factors that support the forecast that Georgia will outperform the US in terms of employment and total personal income growth. These include:
 - Georgia has a below average cost of doing business that is attractive to relocating and expanding businesses.
 - In-migration is expected to remain strong.
 - Expanding world trade will support growth at Georgia's ports and air cargo operations.
 - The military's Base Realignment and Closing activities will, on net, bring new jobs to Georgia. While Atlanta will suffer some near-term job losses, economic development opportunities for vacated military sites are likely to lead to significant job additions.
- Several risk factors exist that could impact Georgia's economic trends. These consist of both macroeconomic factors and local factors. They include:
 - The US housing downturn could be more severe than expected, which could cause a recession.
 - Energy prices are very volatile and a further price spike could harm economic growth in the US.
 - Like the US, Georgia's manufacturing employment continues to erode. Georgia's durable goods manufacturing employment will be affected by planned shutdowns of two automotive assembly plants. These shutdowns may also affect employment at local parts suppliers.
 - BellSouth's acquisition by AT&T may lead to some job losses in Georgia.
 - Aging population will continue to pressure discretionary and non-discretionary spending.

About the Author

Ken Heaghney is State Fiscal Economist for the State of Georgia and Research Professor of Economics in the Fiscal Research Center of the Andrew Young School of Policy Studies at Georgia State University. As the fiscal economist, he prepares forecasts of Georgia's revenues from taxes, user fees, and other sources. In addition, he provides economic advice on a range of policy issues to the Governor's office. He holds a Ph.D. from Rice University.

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The Fiscal Research Center provides nonpartisan research, technical assistance, and education in the evaluation and design of state and local fiscal and economic policy, including both tax and expenditure issues. The Center's mission is to promote development of sound public policy and public understanding of issues of concern to state and local governments.

The Fiscal Research Center (FRC) was established in 1995 in order to provide a stronger research foundation for setting fiscal policy for state and local governments and for better-informed decision making. The FRC, one of several prominent policy research centers and academic departments housed in the School of Policy Studies, has a full-time staff and affiliated faculty from throughout Georgia State University and elsewhere who lead the research efforts in many organized projects.

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